

**RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY**

**STATUTORY BASIS FINANCIAL STATEMENTS**  
For the years ended September 30, 2012 and 2011

And

**INDEPENDENT AUDITORS' REPORT**

**Long CPA, PA**  
**A Professional Association**  
**Certified Public Accountants**

**RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY**

Douglas County, Kansas

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To the Board of Directors  
Rural Water District No. 4, Douglas County, Kansas  
Baldwin City, Kansas 66006

## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the business-type activities of Rural Water District No. 4, Douglas County, Kansas (the District) as of and for the years ended September 30, 2012 and 2011. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

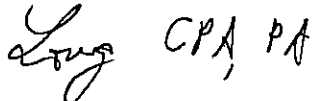
We conducted our audits in accordance with generally accepted auditing standards in the United States of America and the applicable provisions of the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basis financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of September 30, 2012 and 2011, and its changes is financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The supplemental schedules for the years ended September 30, 2012 and 2011, listed in the table of contents are not necessary for a fair presentation of the financial statements, but are presented as additional data. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Board of Directors  
Rural Water District No. 4, Douglas County, Kansas

The Management's Discussion and Analysis, on pages 3 through 6, is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Long CPA, PA". The signature is stylized and cursive.

Long CPA, PA  
A Professional Association  
Certified Public Accountant

November 27, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion of the financial performance of Rural Water District No. 4, Douglas County Kansas (the District), provides an overview of the financial activities of the District for the fiscal year ended September 30, 2012 and comparative data for the fiscal year ended September 30, 2011. This information is presented in conjunction with the audited financial statements that follow this section.

During fiscal year 2003, the District adopted the financial reporting format required by the Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

### **Financial Highlights**

The District's net assets increased by \$114,868. This was principally due to water usage increase.

The District realized income from operations of \$ 51,891, after recognizing depreciation and amortization expense of \$ 134,788.

Total cash on hand at the end of the year was \$ 355,862 which was an increase of \$ 43,350 over the cash on hand on September 30, 2011. The total unrestricted cash on hand on September 30, 2012 was \$355,862.

### **Overview of the Financial Statements**

The financial statements presented herein include all of the activities of the District. The District's basic financial statements comprise two components: 1) basic financial statements, and 2) notes to financial statements.

### **Basic Financial Statements**

The financial statements present the financial picture of the District from the economic resource measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities, expenses and changes in net assets presents information showing how the District's net assets changed over the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

#### **Notes to basic financial statements.**

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 10-19 of this report.

83% percent of the District's net assets reflect its investment in capital assets (e.g., land, buildings, infrastructure, and equipment); less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its participating members (customers); consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The unrestricted net assets may be used to meet the District's ongoing obligations to its customers and creditors.

#### **Capital Assets**

The District's investment in capital assets for its business-type activities as of September 30, 2012 and 2011 was \$ 3,321,712 and \$ 3,416,267, respectively, (net of accumulated depreciation). This includes land, buildings, infrastructure and facilities, equipment, and investment in contracts with the Cities of Lawrence and Baldwin City, and Consolidated Rural Water District No. 6, Johnson County for water supply to the District.

#### **Debt Administration**

At the end of fiscal year 2012, the District had no bonded debt outstanding.

The statement of activities, expenses and changes in net assets and the comparison of budget to actual amounts for fiscal year 2012 reflect no significant changes from fiscal year 2011.

In September of 2003, the district entered in to a loan agreement for a maximum for \$250,000 (\$183,328 and \$193,160 outstanding on September 30, 2012 and 2011 respectively) with First State Bank and Trust in Lawrence, Kansas. Advances from the loan were used to finance the construction for a booster pumping and metering facility. The District will make monthly principal and interest payments of \$1,795 for 120 months

and \$1,919 for 120 months. The interest rate is 6.02% and the loan has a maturity of March 11, 2024. The loan is guaranteed by the United States Department of Agriculture.

In August of 2002, the District entered into a loan agreement with the Kansas Department of Health and Environment under the Kansas Water Supply Loan Fund up to \$1,250,000 (\$573,516 and \$611,917 outstanding at September 30, 2012 and 2011 respectively) Advance from the loan were used to finance the connection of water line with Consolidated Rural Water District # 6 of Johnson County, Kansas. The District will make semi – annual payments of \$31,490 through August of 2024. Interest rate is 4.08%

As a result of the Loan Fund the District entered into a financial integrity assurance contract with Kansas Rural Water Finance Authority (KRWFA) as a result of this contract the District has agreed to the following conditions:

Complete a quarterly management report of operating data and financial information in the form prescribed by KRWFA.

Completion of a budget 90 days prior to the end of the District's fiscal year.

Completion of an audit not less than 180 days after the end of the fiscal year.

Maintaining a debt service coverage ration 1.40.

### **Economic Factors and Next Year's Budget and Rates**

The Annual Budget outlines the staff's plan to carry out the District's mission of providing a safe and dependable supply of potable water for the public health and safety of rural, southeast Douglas County.

As a product of an ongoing examination of how the District does it's business, our budget seeks to assure that we have the necessary funds to accomplish our objectives, while insuring that our rates and charges remain as competitive as possible.

Continued growth within the District is anticipated. The potential of City annexation into our area is a factor that could have an impact upon our operations, and the Board of Directors continues to monitor and participate in that process.

As indicated in our notes on contingencies on pages 17-18 of the report, the District is involved in litigation with the City of Eudora over annexations made into our service territory.

Significant road improvements are anticipated over the next few years will require some minor water line relocation efforts, however most if not all of the costs associated with those improvements should be reimbursable.

## **Requests for Information**

This financial report is designed to provide citizens, customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the money that it receives. If you have any questions about this report or desire any additional information, contact the District Administrator at 1768 N 700 Road, Baldwin City, KS 66006, or phone (785) 594-3847.



# **RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY**

## **STATEMENTS OF NET ASSETS**

As of September 30, 2012 and 2011

	<b>ASSETS</b>	
	<b>2012</b>	<b>2011</b>
Current Assets		
Cash and cash equivalents	\$ 355,862	\$ 312,512
Account receivable	106,260	112,192
Inventory	51,581	34,327
Prepaid expenses	21,859	15,307
Total current assets	535,562	474,338
Property, plant, and equipment, net	3,321,712	3,416,267
Other Assets		
Loan costs, net of amortization	12,335	13,419
Total Assets	<u>\$ 3,869,609</u>	<u>\$ 3,904,024</u>
<b>LIABILITIES AND DISTRICT EQUITY</b>		
Current Liabilities		
Current maturity of long term debt	\$ 52,927	\$ 78,060
Accrued liabilities	18,605	16,674
Accounts payable	21,218	91,498
Total current liabilities	92,750	186,232
Long Term Debt	815,642	896,576
Current portion of long term debt	(52,927)	(78,060)
Total liabilities	855,465	1,004,748
District Equity		
Invested in capital, net of debt	2,506,070	2,519,691
Unrestricted	508,074	379,585
Total liabilities and district equity	<u>\$ 3,869,609</u>	<u>\$ 3,904,024</u>

The notes to the financial statements are an integral part of this statement.

**RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

For the periods ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Water sales	\$ 1,096,315	\$ 990,990
Miscellaneous	602	763
Operating transfers		
Total revenues	<u>1,096,917</u>	<u>991,753</u>
<b>Expenses</b>		
Water purchased	331,438	240,271
Personnel costs	216,030	205,992
Rent and storage	19,558	17,794
Insurance	37,456	44,139
Utilities	25,358	18,294
Office supplies and postage	16,664	17,130
Vehicle expense	14,522	15,307
Professional fees	47,606	4,050
Depreciation and amortization	134,788	133,466
Repairs and maintenance	30,504	48,807
Travel	1,085	880
Miscellaneous	5,657	9,028
Training	638	1,159
Ongoing GPS support	855	4,776
SPWUA Feasibility Study	7,575	10,000
Clean drinking water fee	2,319	1,572
Eudora legal expenses	<u>152,973</u>	<u>55,192</u>
Total expenditures	<u>1,045,026</u>	<u>827,857</u>
Income from operations	51,891	163,896
<b>Other income (expense)</b>		
Interest income	1,049	985
Interest expense	(38,870)	(41,511)
Late charges	<u>18,512</u>	<u>18,077</u>
Total other income (expense)	<u>(19,309)</u>	<u>(22,449)</u>
<b>Net income (loss)</b>	32,582	141,447
<b>District Equity - Beginning of Year</b>	2,899,276	2,701,804
Benefit units and aid in construction	<u>82,286</u>	<u>56,025</u>
<b>District Equity - End of Year</b>	\$ <u><u>3,014,144</u></u>	\$ <u><u>2,899,276</u></u>

The notes to the financial statements are an integral part of this statement.

**RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY**  
Douglas County, Kansas

**STATEMENTS OF CASH FLOWS**  
For the years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Cash receipts from customers and reimbursements for services	\$ 1,102,246	\$ 954,743
Cash payments for goods and services	(785,002)	(523,067)
Cash payments to employees for services	(216,030)	(205,992)
	<u>101,214</u>	<u>225,684</u>
Net cash provided by operating activities	101,214	225,684
Cash flows from investing activities		
Interest income	1,049	985
	<u>1,049</u>	<u>985</u>
Net cash provided by investing activities	1,049	985
Cash flows from capital and related financing activities		
Purchase of capital assets	(39,149)	(18,205)
Proceeds from sale of benefit units	82,286	56,025
Interest paid	(40,170)	(39,020)
Principal payments on long term debt	(80,994)	(76,018)
	<u>(78,027)</u>	<u>(77,218)</u>
Net cash used in capital and related financing activities	(78,027)	(77,218)
Cash flows from non-capital and financing activities		
Late charges	18,512	18,077
Other	602	763
	<u>19,114</u>	<u>18,840</u>
Net cash used in capital and related financing activities	19,114	18,840
Net increase in cash and cash equivalents	43,350	168,291
Cash and cash equivalents, beginning of year	312,512	144,221
Cash and cash equivalents, end of year	<u>\$ 355,862</u>	<u>\$ 312,512</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 51,891	\$ 163,896
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	134,788	133,466
Changes in assets and liabilities		
Accounts receivable	5,932	(36,247)
Inventory	(17,254)	(434)
Prepaid expenses	(6,552)	(9,819)
Accounts payable and Accrued expenses	(67,590)	(25,178)
	<u>101,215</u>	<u>225,684</u>
Net cash provided by operating activities	\$ 101,215	\$ 225,684

The notes to the financial statements are an integral part of this statement

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**RURAL WATER DISTRICT NO.4, DOUGLAS COUNTY**  
Statement of Changes in Long-Term Debt  
For the year ended September 30, 2012

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
<b>Loans:</b>										
Mid America Bank	6.50%	9/1/09	\$ 50,000	7/25/12	\$ 29,789	\$	\$ 29,789	\$ (29,789)	\$ 0	\$ 1,263
Mid America Bank	6.50%	9/9/11	61,710	9/15/26	61,710		2,972	(2,972)	58,738	3,937
Kansas Public Water Supply Loan	4.08%	8/1/02	1,250,000	8/1/24	611,917		38,402	(38,402)	573,515	22,470
First State Bank	6.02%	9/1/03	250,000	8/9/23	193,160		9,831	(9,831)	183,329	12,500
<b>Total Long Term Debt</b>					<u>\$ 896,576</u>	<u>\$ 0</u>	<u>\$ 80,994</u>	<u>\$ (80,994)</u>	<u>\$ 815,582</u>	<u>\$ 40,170</u>
	2013	2014	2015	2016	2017	2018-2022	2023-2026	Total		
<b>Principal</b>										
General Obligation Bonds	\$	\$	\$	\$	\$	\$	\$	0		
Special Assessment Bonds								0		
Certificates of Participation								0		
Capital Leases	52,927	55,433	58,063	60,823	63,719	367,358	157,259	815,582		
Revenue Bonds								0		
No-Fund Warrants								0		
Temporary Notes								0		
<b>Total Principal</b>	<u>52,927</u>	<u>55,433</u>	<u>58,063</u>	<u>60,823</u>	<u>63,719</u>	<u>367,358</u>	<u>157,259</u>	<u>815,582</u>		
<b>Interest</b>										
General Obligation Bonds								0		
Special Assessment Bonds								0		
Certificates of Participation								0		
Capital Leases	37,425	34,949	32,319	29,558	26,663	84,548	9,427	254,889		
Revenue Bonds								0		
No-Fund Warrants								0		
Temporary Notes								0		
<b>Total Interest</b>	<u>37,425</u>	<u>34,949</u>	<u>32,319</u>	<u>29,558</u>	<u>26,663</u>	<u>84,548</u>	<u>9,427</u>	<u>254,889</u>		
<b>Total Principal and Interest</b>	<u>\$ 90,352</u>	<u>\$ 90,382</u>	<u>\$ 90,382</u>	<u>\$ 90,381</u>	<u>\$ 90,382</u>	<u>\$ 451,906</u>	<u>\$ 166,686</u>	<u>\$ 1,070,471</u>		

## RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY

### Statement of Cash Receipts and Expenditures - Actual and Budget For the year ended September 30, 2012

	Actual	Budget	Variance- Favorable (Unfavorable)
<b>CASH RECEIPTS</b>			
Water sales	\$ 1,096,315	\$ 959,856	\$ 136,459
Miscellaneous	602		602
Late charges	18,512	16,000	
Interest income	1,049		
Operating transfers			0
	<u>1,116,478</u>	<u>975,856</u>	<u>137,061</u>
<b>EXPENDITURES</b>			
Water purchased	331,438	295,059	(36,379)
Personnel costs	216,030	254,000	37,970
Rent and storage	19,558	24,000	4,442
Insurance	37,456	12,000	(25,456)
Utilities	25,358	26,000	642
Office supplies and postage	16,664	18,000	1,336
Vehicle expense	14,522	14,750	228
Professional fees	47,606	79,500	31,894
Depreciation and amortization	134,788	145,000	10,212
Repairs and maintenance	30,504	48,000	17,496
Travel	1,085	1,000	(85)
Miscellaneous	5,657	6,000	343
Training	638	1,000	362
Debt service	121,164	123,000	1,836
Ongoing GPS support	855	4,800	3,945
SPWUA Feasibility Study	7,575	11,500	3,925
Clean drinking water fee	2,319	2,600	281
Eudora legal expenses	152,973	50,000	(102,973)
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>1,166,190</u>	<u>1,116,209</u>	<u>(49,981)</u>
<b>Total Expenditures</b>	<b>\$ 1,166,190</b>	<b>\$ 1,116,209</b>	<b>\$ (49,981)</b>

The notes to the financial statements are an integral part of this statement.

**RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY**

**SUMMARY OF INSURANCE COVERAGE AND FIDELITY BONDS**

As of September 30, 2012

<u>Property Covered</u>	<u>Coverage</u>	<u>Expires</u>
Commercial property:	80% Coinsurance	11/10/2012
Building and personal property	1,972,513	
General Liability:		11/10/2012
Aggregate Limit -		
products/completed operations	1,000,000	
other than products/completed ops	1,000,000	
Personal and advertising injury	500,000	
Fire damage (per fire)	100,000	
Medical expense (per person)	5,000	
Commercial Auto:		11/10/2012
Liability insurance (per loss)	500,000	
Uninsured motorist	500,000	
Underinsured motorist	500,000	
Medical expense	5,000	
Workmen's compensation:		11/10/2012
Bodily injury by accident	500,000	
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		11/10/2012
Per loss	125,000	
Errors and Omissions		11/10/2012
Claim	1,000,000	
Aggregate	1,000,000	

The notes to the financial statements are an integral part of this statement.

**RURAL WATER DISTRICT NO. 4, DOUGLAS COUNTY**

**BOARD MEMBERS AND OFFICERS**

As of September 30, 2012

Chairman:	Ron Skaggs 1824 N 300 RD Baldwin City, KS 66006
Vice Chairman:	Ron Dalquest 1004 E 1600 RD Lawrence, KS 66046
Treasurer:	John Langley 1705 N 600 RD Baldwin City, KS 66006
Secretary:	David Brown 615 E 1850 RD Baldwin City, KS 66006
Board Member:	John Ayler 2076 N 1000 RD Eudora, KS 66025
Board Member:	Allen Rockhold 1724 N 780 Rd Baldwin City, KS 66006
Board Member:	Angela Loenard-Hinnant 2198 N 700 RD Eudora, KS 66025

The notes to the financial statements are an integral part of this statement.